

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
FINANCIAL ASSISTANCE DIVISION****Community and Economic Development Section**

State CDBG Program

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**CDBG****Community Development Block Grant Program****MANAGEMENT MEMORANDUM****Memorandum Number 06-03****TO: All CDBG Eligible Jurisdictions & Interested Parties** **DATE: February 27, 2006****SUBJECT: Questions and Answers from the 2005 CDBG Grant Management Workshops****Qs and As from 2005 CDBG Grant Management Workshops****Program Reports and Fiscal Issues**

- Q: With regards to the Financial and Accomplishment Report (FAR) and the Funds Request, for multiple-year funding, should jurisdictions include the budget amount for all three years or just for the first year?
- A: A CDBG Management Memo will be issued within the next several months that will eliminate the FAR form, consolidate information from the FAR into the Funds Request, and create a new form containing only the accomplishment narrative information. The management memo will describe how to complete the new Funds Request form under the three year funding cycle. In the meantime, please submit a separate FAR and Funds Request form for each fiscal year of funds reflected in Exhibit B, Section 2, Contract Amount, of your multi-year Standard Agreement. Use the white space in the top, left hand, corner of the FAR and Funds Request forms to specify the fiscal year represented on each form. Please do not complete these forms for fiscal years that have not yet arrived, such as 2006-2007. Please also see the answer to the first question on the second page of this Management Memo.
- Q: When completing the **first** Funds Request and Financial and Accomplishment Report (FAR), what is the **beginning date** for those grantees who incurred general administrative costs first and later cleared their special conditions prior to the date of grant execution?
- A: Use the date of the award letter.
- Q: What is the procedure for completing the **first** period Financial and Accomplishment Report (FAR) and Funds Request forms when only 15-30 days of a semi-annual period (FAR) or calendar quarter (Funds Request) remain when costs are first incurred?
- A: If, when grant costs are first incurred, there is less than 30 days left in a report period then a FAR and/or Funds Request report is not required for the short report period. Instead, the information for the short period can be incorporated into the report for the next period.
- Q: Are all of the reports on the website updated/current version?
- A: Yes
- Q: What is the rule regarding interest on a lump sum drawdown?
- A: Interest on lump sum drawdown is NOT considered program income and does not need to be returned to the State, but it does go back into the loan pool of the grant for additional assistance to TIG households.

Q: Can funds for all three years of a multiple-year General Allocation grant be requested at the same time when they are for one project/activity?

A: No, although a single project may require amounts from each funding year, each year's funding is not available until each funding year arrives. See Exhibit B, Section 2, Contract Amount, of your Standard Agreement. The column on the left indicates the fiscal year of funds, such as 2006/2007, from which each activity is funded. Until approximately July 15th to 30th of the fiscal year of funds (in the case of 2006/2007 it would be July 2006), the funding for the activities listed under that fiscal year are not available. If your jurisdiction has an important need to obtain funding for an activity sooner than allowed in Exhibit B, please submit a request to your CDBG Representative explaining the need and specifying the activity, amount and year needed. If we can accommodate your request we will require 90 days to make the necessary changes.

Q: Please clarify the accounting terms disbursed, expended, and accrued expenditures.

A: When preparing CDBG Funds Requests, Financial and Accomplishment Reports (FAR) and Program Income Reports, CDBG requires the use of cash basis accounting.

The term "Disbursed" means that the funds were received from CDBG and paid to the vendor or supplier of the goods or services; the term "Expended" generally means that the reported costs were incurred and paid, but for the purpose of completing program income reports may include the amount of a loan once loan documents have been executed, and; the term "Accrued expenditure" will no longer be used on CDBG forms once the new Funds Request form is released.

As discussed in the answer to the first question, above, CDBG is planning to do away with the FAR form and to modify the Funds Request form. The new Funds Request form will not use the terms "Expended" or "Accrued Expenditure," but will instead rely on use of the term "disbursed." For the purpose of CDBG milestones, in order to be considered expended, CDBG funds must have been disbursed.

Q: Where is the reference regarding the Regulation which requires funds to be "expended" not just committed?

A: Expenditure language is included in Cal Administrative Code Title 25, Section 7066 (b, c, d, and e), and Section 7078.4 for non-ED rating and ranking for prior performance. Note: Upon release of the new Funds Request form, we will require that CDBG funds be disbursed in order to be considered expended. This is the same standard to which HUD holds the State.

Sub-granting:

Q: What is the difference between sub-grantee and sub-recipient?

A: Information regarding sub-recipients may be found in the CDBG Grant Management Manual, Chapter 2, Program Operators, available on the Department's website, <http://www.hcd.ca.gov/fa/cdbg/gmm/>. Information about Sub-grantees may be found in Management Memo 05-15, Sub-grants, which was issued on November 18, 2005 and is now available on the Department's website, <http://www.hcd.ca.gov/fa/cdbg/mmemo/>. This management memo explains that sub-grants must be used in order to de-federalize CDBG loan repayments, or to undertake an activity that would be eligible only if undertaken by the grantee itself or by a non-profit corporation, such as housing new construction. Further, the memo explains that there are only three CDBG activity types that may be sub-granted:

- 1) Programs or projects that are part of a local neighborhood revitalization project;
- 2) Community economic development projects, and;

3) Energy conservation projects.

Also available at the above website is the more detailed companion document regarding sub-granting, entitled, Guidance and Detailed Procedures, which includes a certification form.

Housing Rehabilitation Programs -- Recent Changes and Best Practices:

Q: Can manufactured homes be purchased when one does not own the land?

A: Yes. A grantee's housing rehabilitation program's guidelines may allow replacement of a manufactured home with a new or used manufactured home. If the replacement home is "used" then the replacement is considered to be rehabilitation. If the replacement home is "new" then CDBG standards for reconstruction must be met. Manufactured home replacement is allowed on either homeowner-owned, or leased land.

Q: If replacing a used manufactured home with a new one, can the number of bedrooms be reduced?

A: Always replace like for like whether replacing a manufactured home or reconstructing a stick-built home. If the character of the unit is changed significantly then an argument can be made that an affordable housing unit was lost and replacement requirements under Section 104 (d) may be triggered.

Q: Is Hazard Insurance listing the public lender (grantee, its sub-grantee or sub-recipient) as loss payee a HUD requirement? What is the reference citation for this requirement?

A: There is no federal or State regulation mandating this. However, given that a CDBG housing rehabilitation loan is a public asset held in trust by the public lender, this public asset should be protected. It is standard business practice for all residential lenders to be listed as loss payees on hazard insurance policies.

Q: Is a loan agreement the same as a promissory note?

A: No, a promissory note states the interest rate and repayment terms of the loan and is secured by a deed of trust recorded on the property. As such, a violation of the promissory note can lead to a foreclosure action on the property.

A loan agreement is a separate document which defines how and when the funds will be spent. It is not attached to or secured by a deed of trust so a violation does not trigger foreclosure, rather the borrower must be taken to court in order to enforce the terms.

The CDBG program requires a loan agreement in addition to a promissory because the loan funds are restricted to a certain process dictated by the local program guidelines and are limited to payment of certain eligible costs. Most promissory notes used on loans do not have the detail about how and when the funds can be spent because they are not restricted public funds like CDBG. So housing rehabilitation programs use the standard promissory note and add a loan agreement to address CDBG restrictions. CDBG staff recommends that the grantee's legal staff review these documents prior to use.

Procurement:

Q: What are the rules regarding preferences for local contractors when procuring contractors?

A: We expect grantees to comply with all federal requirements when procuring contractors. Preferences for local contractors are discouraged by HUD. Please observe this advice.

Q: Are two Requests for Proposals (RFP's) required when hiring program operators for the combination homebuyer assistance and housing rehabilitation activity?

A: No.

Q: Can one RFP be used to procure services for labor standards, grants management, and engineering, all for one activity - such as construction of a community facility?

A: One RFP may be used, in which bidders are asked to respond to any or all of the tasks according to their interest and expertise. It would be up to the grantee to make their selection after reviewing and rating all bids. The purpose of this method is to eliminate the cost and time associated with issuing separate RFPs for each task. However, grantees should be aware that it may be difficult to properly evaluate the "apples and oranges" proposals likely to be received from bidders with differing interests, capabilities and prices for the variety of combinations of tasks in the RFP.

Miscellaneous Questions:

Q: Why is Slum and Blight not a national objective for the Planning and Technical Assistance (PTA) General activities?

A: CDBG is investigating whether or not to allow the slum and blight national objective for PTA General activities in future PTA Notices of Funding Availability (NOFAs). However we are not considering it for the 2006-2007 PTA NOFA, expected to be released on approximately April 1, 2006.

Q: How does CDBG determine and what documentation is needed to qualify for "Worst case housing needs"?

A: Worst-case housing needs is a "State Objective" rating and ranking factor under the General, Native American, and Colonias Allocations NOFA, as follows:

Up to 25 points will be awarded to proposals that facilitate the construction, acquisition or rehabilitation of permanent housing projects that meet all of the following requirements: 1) must include rental housing; 2) of the rental housing, must target at least 25% of the program beneficiaries to be LTIG households (see LTIG definition on page 13) who do not receive Federal housing assistance, and 3) must reduce these beneficiaries' rent and utility costs to below 50% of their gross incomes, or benefit persons who live in severely substandard housing. For the purposes of this State Objective, permanent means that residents' tenure in the housing will not be limited to a certain time period.

If the grant application claimed that a proposed activity would serve worst case housing needs, and the Department agreed and awarded points under this category, then during a monitoring visit the Department will review documentation. Appropriate documentation would include: Household income documentation, documentation of the tenant's prior housing arrangement indicating that the tenant was not receiving federal housing assistance; and documentation that tenant either was living in severely substandard housing or is now paying less than 50% of gross income for rent and utilities.